2001 ANNUAL REPORT

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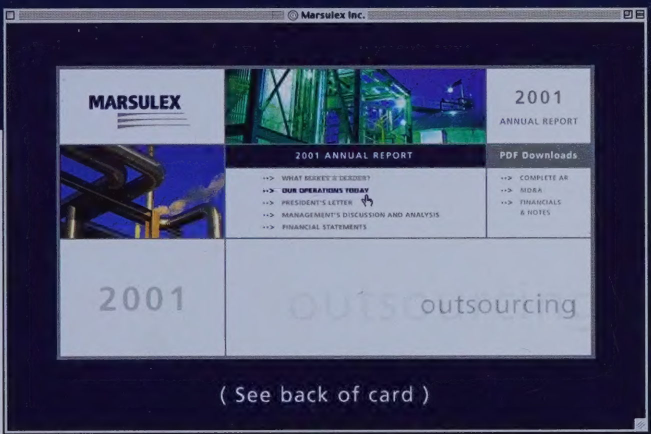

MARSULEX INC.

MARSULEX

Welcome to our 2001 Annual Report

In 2001 we made significant changes at Marsulex. All of them were in line with our key objectives of maximizing shareholder value and focusing our business on our core growth strategy – becoming a leading provider of outsourced environmental compliance solutions.

In the same spirit of positive change and growth, we have introduced an interactive annual report which can be found on our website – www.marsulex.com. This printed annual report is a more simple document than recent ones in appearance, but is still comprehensive in terms of financial information and discussion and meets or exceeds all regulatory reporting requirements.

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In 1996 Marsulex announced its intention to become a leading provider of outsourced environmental compliance solutions to industries increasingly impacted by environmental regulations. By the end of 2000, earnings from outsourced services accounted for 40% of our total EBITDA, up from a mere 5% in 1995.

In six years our company has become a significant provider of outsourced services to the oil refining industry in North America, and has established our proprietary gas cleaning technologies as the solution of choice for power generators who want regulatory compliance while at the same time achieving optimal economics with minimal by-product disposal issues. Today Marsulex provides compliance services for over 25 customers from five sites across the United States and Canada and has three more facilities under construction.

For shareholders, the real importance of these achievements is that it is outsourced services that will drive substantial and sustainable growth for Marsulex and generate high quality earnings. The proof of this was evident in three significant definitive agreements that were signed in the first half of 2001.

Long-term agreements were signed with BP, Syncrude and Santee Cooper to outsource environmental compliance activities to Marsulex. In all three cases Marsulex's solutions incorporate proprietary technology in facilities to be designed, built and owned by us. The Syncrude and Santee Cooper agreements are expected to generate over $400 million in EBITDA over their first 15 years, or an average of approximately $27 million per year. This is indicative of the growth that can be driven by our outsourcing strategy.

The Chemtrade Transaction

As a result of this successful transformation of our Company, however, we had really become two separate businesses: our traditional removal services business and the growing outsourcing business. Each had its own characteristics, and each made different demands on management and the company's resources. We believed separation of the businesses would achieve a number of objectives:

a. we could crystallize the value of the removal services business for our shareholders;
b. we would be able to focus all our resources on our outsourcing strategy which offers strong prospects of accelerated growth and high quality earnings; and
c. we could achieve greater financial flexibility to support the execution of our growth initiatives.

The Chemtrade Transaction, in which we sold our removal services business in eastern North America and our BCT Chemtrade subsidiary to Chemtrade Logistics Income Fund (the "Fund") achieved those objectives.

The transaction raised gross proceeds of approximately $167 million which generated an after tax profit of approximately $70 million for Marsulex. The gross proceeds represented a multiple of 6.5 times the EBITDA of the businesses sold to the Fund.

This was a good result for Marsulex. Although the removal services businesses were mature and generated reliable cash flow, their growth potential was limited and didn't fit the long-term objectives of Marsulex, a position we had always made clear. With the sale to the Fund, we believe we successfully maximized the value of the businesses and took a huge step towards completing the transition of the Company.

Transitioning the Power Generation Group

The other transformation that had been taking shape since 1997 was our Power Generation Group. When we acquired the business from General Electric, it was principally for its technology base, in particular its advanced sulphate scrubbing technology which we believed would be a sound platform on which to develop our strategy for providing outsourced services to the power generation industry.

In addition to the new technology, it also had the world's largest installed base of traditional limestone flue gas desulphurization("FGD") systems, which provided tremendous credibility in the industry as well as cash flow from major system installations and ongoing equipment sales and service.

However, this engineering and construction segment of the business did not fit with our long-term plans for the group and from the outset we declared our intention to transition the business to outsourced services.

The Santee Cooper agreement, and the one with Syncrude, were tangible evidence that our technology-based outsourcing solutions had market credibility and acceptance. It was time, therefore, to exit the traditional businesses and focus all our resources where we can generate the most value for shareholders.

In 2001, we sold the mechanical collectors business. In January 2002 we completed a transaction with Hamon Research-Cottrell under which Hamon acquired the parts and services business and became the exclusive licensee in North America for Marsulex's wet limestone/gypsum and dry lime FGD technologies and a non-exclusive licensee outside North America. These are the technologies better suited to the traditional business. We, of course, retain our ammonium sulphate technology. We will also maintain a royalty interest in the FGD technologies and provide on-going technical and marketing support to Hamon.

With the completion of that transaction, the Power Generation Group became purely an outsourced services business, with the Santee Cooper project its most significant operation. But this is just a beginning. The dynamics of the market, and the heightened credibility we achieved with that agreement, have already led to other promising opportunities.

Organizational Alignment

Completion of the Chemtrade transaction substantially changed the make-up of our operations in North America that had previously handled both removal services and our growing outsourced services to oil refineries. We immediately realigned our operations to reflect this change, and also to optimize our resources to deliver the best customer service, accelerated growth and high quality earnings.

Our three business groups – Refinery Services, Power Generation and Western Markets – are dedicated to customer relationships and are supported by a full range of corporate expertise including operational excellence, project execution support, finance, information systems, human resources, and risk management.

People

As part of the organizational changes, Laurie Tugman was promoted to Executive Vice President and Chief Financial Officer. The heads of the three operating groups report to Laurie and the finance team has been strengthened with the appointment of Ted Irwin as Vice President, Finance.

In November, Bob Cardell joined Marsulex as Vice President & General Manager of the Power Generation Group. With extensive global experience in the environmental solutions sector, he has excellent credentials to lead our focused strategy for the power generation industry.

The huge changes that we implemented over the past year were demanding on all our employees, but I can say without reservation that they performed as they always do, with great resolve and determination to complete the job. We are grateful to all of them.

Our thanks also to the board of directors whose guidance and support were particularly helpful last year. During the year, as a result of the takeover of Harrowston Inc., TD Capital Group became our major shareholder. As a result of that change, Brent Belzberg and Richard Brock resigned from the board in February 2002 and have been replaced by Bill Lambert and David McCann, both of TD Capital. Brent, as President and CEO of Harrowston was a strong supporter of Marsulex from its earliest days and his contribution to our growth and attainment of our leading position in our industry is greatly appreciated. Rick, as Chairman and CEO of Brock Solutions Inc., brought a unique perspective on technology acquisition and integration together with seasoned management experience. Ian Lennox also has resigned from the board and we thank him for his five years of service.

Looking Ahead

The outlook for our business is very positive. The achievement of our narrowed focus on outsourced services, and the strong market dynamics for our service offerings provide a favourable climate for growth.

Independent market studies continue to predict huge expenditures on environmental compliance assets in both of our key target markets – oil refineries and power generation. The added market credibility we gained with the BP, Syncrude and Santee Cooper agreements are having a beneficial effect in the marketplace. The projected revenue and earnings from those long-term agreements alone are indicative of the growth potential for our business.

David M. Gee
President and Chief Executive Officer

The following provides additional analysis of Marsulex's operations and financial position. It is supplementary information and should be read in conjunction with the consolidated financial statements and accompanying notes.

OVERVIEW OF 2001

In 2001, the Company made further progress in focusing the Company's business on its core growth strategy of outsourced environmental compliance services. Key milestones reached during the year included:

- Sale of the Company's sulphur removal assets in eastern North America and BCT Chemtrade Corporation (the **Chemtrade Transaction).**
- Execution of **definitive agreements** with three customers for long-term outsourced environmental compliance services which will include facilities to be designed, built and owned by Marsulex and incorporate proprietary technology.
- Final **Power Generation Group transition** to outsourced environmental services with the sale of non-core businesses.

The Chemtrade Transaction

On July 18, 2001, the Company completed the sale of its sulphur removal assets in eastern North America and of BCT Chemtrade Corporation ("BCT"), a subsidiary of the Company, to Chemtrade Logistics Income Fund. Marsulex received gross cash proceeds of $167.2 million before costs of disposition.

The results for the year ended December 31, 2001 reflect a total gain, net of provision for income taxes, on the Chemtrade Transaction of $70.0 million comprised of $54.9 million from the sale of the sulphur removal services in eastern North America and $15.1 million from the sale of BCT. As a result of the Chemtrade Transaction, the Company was able to utilize some of its unused tax losses, resulting in an effective tax rate of approximately 15%. The income tax provision on the total gain is $10.7 million, and of this amount approximately $2.0 million is the current or cash portion. The net proceeds from the sale were $156.6 million after costs of disposition. The Company used a portion of the proceeds to fully retire the

$37.7 million of 10.21% Senior Notes, with the remaining funds invested in interest bearing deposits at December 31, 2001. The Company also cancelled its US $50 million operating credit facility and expects to replace it with a facility that provides it with greater flexibility.

The Company's financial statements present the results of operations including the Chemtrade Transaction and the retirement of debt in accordance with Canadian generally accepted accounting principles. The operations of BCT comprised one operating segment at the time of disposition and accordingly for reporting purposes, the gain on sale, the results of operations and cash flows of this segment to the date of sale are presented and disclosed as discontinued operations.

Management has prepared the following pro-forma financial information to assist with explaining the Company's financial results, particularly in future quarters when actual results will reflect the business going forward without the results from the eastern North American sulphur removal services assets sold as part of the Chemtrade Transaction.

Pro-forma Income Statement

($ millions)		Year ended December 31, 2001
Revenue	$	172.3
Cost of sales and services		115.7
Gross profit		56.6
Selling, general, administrative and other costs		29.6
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	$	27.0

The pro-forma EBITDA for the remaining business of $27.0 million for the year ended December 31, 2001 met the Company's expectations, and the Company's financial position improved as a result of the Chemtrade Transaction. The gain relating to the Chemtrade Transaction increased shareholders' equity while the retirement of the Company's 10.21% Senior Notes reduced debt. As a result of the Chemtrade Transaction on July 18, 2001, the Company is obligated to make an offer within 380 days to purchase a portion of the Senior Subordinated Notes. (See the Consolidated Balance Sheet section of the Management's Discussion and Analysis for a further discussion on the amount of the offer to purchase required under the terms of the indenture agreement.)

With the completion of the Chemtrade Transaction, the Company made progress towards focusing its business on its core strategy of outsourced environmental compliance solutions. Following the Chemtrade Transaction the Company announced a new organizational structure designed to support its strategy and deliver accelerated growth and higher quality earnings. The Company's operations were then realigned into three operating segments: Refinery Services, Power Generation and Western Markets. The functions of project execution support, finance, information systems, human resources, and risk management will assist in optimizing day-to-day operations of the Company and will support the pursuit of new outsourcing opportunities and comprises the fourth non-operating segment, Corporate.

Definitive Agreements

During 2001, the Company's strategy to drive growth through the provision of technology-based outsourced compliance services to oil refiners and electric power generators moved ahead, as indicated by three announcements of definitive agreements – with BP Whiting, Syncrude and Santee Cooper.

BP Whiting

Definitive agreements were signed with BP for a package of environmental services that includes spent acid regeneration services, as well as a new tail gas recovery unit at the BP refinery in Whiting, Indiana. Marsulex will design, build and own the facility, which will incorporate the Company's proprietary technology that removes and recovers sulphur emissions and also produces a higher value by-product, sodium bisulphite. The same technology is used at the Company's plant in Montreal, which provides outsourced compliance services to Petro-Canada's and Shell Canada's adjacent refineries. The agreements also include long-term extensions to existing services provided for BP Toledo and BP Chemicals in Lima, Ohio. The total package is expected to generate revenue in excess of $275 million over its 15-year life.

Construction on the site emissions control facility is one third complete and is expected to be completed in the second quarter of 2002. BP will operate the facility.

Syncrude

In April 2001, Marsulex signed definitive agreements with Syncrude Canada Ltd. for provision of environmental services for Syncrude's proposed $4 billion Upgrade Expansion project at the Mildred Lakes oil sands facility in Alberta. Marsulex will provide its proprietary ammonium sulphate scrubber technology and will own and operate a portion of the facilities. The Company will earn a fee to dispose of the products from the scrubber and will participate in income derived from the sale of ammonium sulphate fertilizer, the value-added by-product. Over the life of the 15-year Syncrude agreements, revenue is expected to exceed $150 million with EBITDA expected to be over $110 million. Marsulex expects to finance the capital cost of the project out of internal cash flows and from future financing arrangements.

Engineering drawings have been prepared and procurement of equipment has begun with construction expected to begin mid 2002. Completion of the construction is tied to Syncrude's Upgrade Expansion project, which is currently scheduled for startup in late 2004, at which time the revenue stream from the outsourced services is expected to begin.

Santee Cooper

At the end of April 2001, Marsulex executed definitive agreements with Santee Cooper, South Carolina's state-owned power utility company for Marsulex to build and own a scrubber system at the Winyah Power Generating Station located near Georgetown, South Carolina. This system will use Marsulex's ammonium sulphate technology and represents the Company's first agreement in the power generation industry for this process.

At the project level, minimum fees to be paid over the first 15 years of the 22 year agreement are expected to generate EBITDA of over US $200 million, or approximately $300 million Canadian. Marsulex is currently seeking construction bids with construction expected to begin in the second half of 2002 and startup of the facility expected in early 2004. The Company previously disclosed it would invest a portion of the projects costs out of existing cash resources with the remainder financed off-balance sheet and non-recourse to Marsulex. Currently, the Company still expects to invest in a portion of the project out of its existing cash balances with the remainder to be financed on-balance sheet with normal risk through the construction phase and non-recourse to Marsulex upon completion of construction.

Power Generation Group transition

With the completion of the disposal of identified non-core businesses including the mechanical collectors equipment sales business in the third quarter of 2001 and most recently, the parts and services business in January 2002, the Company has now completed the transition of the Power Generation Group to being a provider of outsourced environmental compliance solutions primarily to power generators.

RESULTS OF OPERATIONS

The Company is now focused on being a provider of outsourced environmental compliance solutions and has three operating segments: Refinery Services, Power Generation and Western Markets. A fourth non-operating segment, Corporate, provides project execution support, finance, information systems, human resources, and risk management to the operating segments.

The contributions of the sulphur removal assets of eastern North America sold as part of the Chemtrade Transaction completed on July 18, 2001 are included for the period to July 18, 2001 in the results for the year ended December 31, 2001 and for a full year in 2000. The effects of the Chemtrade Transaction, including the gain on disposal are reflected in the results for the year ended December 31, 2001. In addition, the consolidated statements of operations and cash flow for both 2001 and 2000 have been restated to reflect the disposal of the discontinued operations of BCT. Because of the Chemtrade Transaction and the sale of Intertrade Holdings Inc. ("Intertrade") in the fourth quarter of 2000, comparisons with the previous year are not meaningful.

Selected Financial Information	2001	2000
($ millions, except per share amounts)		(restated[3])
Revenue	**236.7**	311.5
Gross profit	**82.4**	98.9
Selling, general, administrative, and other costs	**42.8**	55.4
EBITDA [1] from continuing operations	**39.6**	43.5
Depreciation, net of disposals	**15.2**	16.7
Earnings from continuing operations before the undernoted	**24.4**	26.8
Unusual items, gain (loss)	**54.1**	(46.7)
Amortization of deferred charges, deferred foreign exchange, and goodwill	**6.9**	8.1
Net interest expense	**13.9**	16.6
Earnings from discontinued operations, net of tax	**16.6**	3.7
Net earnings (loss)	**62.0**	(39.8)
Earnings (loss) per share [2]	**1.97**	(1.27)
Cash generated from continuing operations before non-cash working capital	**19.3**	26.3
Cash generated from continuing operations per share [2]	**0.61**	0.83

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
($ millions)	**2001**	2000[3]	**2001**	2000[3]	**2001**	2000[3]	**2001**	2000[3]
Revenue	**71.5**	77.6	**73.5**	78.6	**48.7**	76.1	**43.0**	79.2
EBITDA [1] from continuing operations	**11.1**	10.0	**12.7**	11.0	**8.9**	10.9	**6.9**	11.6
Depreciation, net of disposals	**4.3**	4.4	**4.4**	4.5	**3.2**	4.2	**3.3**	3.6
Earnings from continuing operations before the undernoted	**6.8**	5.6	**8.3**	6.5	**5.7**	6.7	**3.6**	8.0
Unusual items, gain (loss)	-	-	-	-	**54.1**	-	-	(46.7)
Net interest expense	**4.4**	4.3	**4.2**	4.0	**2.3**	4.2	**3.0**	4.1
Earnings from discontinued operations, net of tax	**0.5**	0.6	**0.7**	0.9	**15.4**	1.3	-	0.9
Net earnings (loss)	**0.4**	-	**1.8**	0.8	**61.9**	1.0	**(2.1)**	(41.6)
Earnings (loss) per share [2]	**0.01**	-	**0.06**	0.02	**1.97**	0.03	**(0.07)**	(1.32)
Cash generated from continuing operations before non-cash working capital	**6.7**	6.2	**7.8**	6.0	**2.1**	6.2	**2.7**	7.9
Cash generated from continuing operations per share [2]	**0.22**	0.19	**0.24**	0.19	**0.07**	0.20	**0.08**	0.25
Total Assets	**321.2**	371.0	**317.8**	372.9	**345.1**	384.2	**343.3**	317.1

(1) EBITDA is earnings (loss) before interest, income taxes, depreciation, and amortization.

(2) The weighted average number of common shares outstanding for 2001 was 31,501,232, unchanged from 2000.

(3) At the time of the Chemtrade Transaction, BCT comprised one operating segment and the gain on sale, the results of operations, and cash flows to the date of sale are presented and disclosed in accordance with Canadian generally accepted accounting principles as discontinued operations and resulted in restatement of prior year's results.

Selected Segmented Information

($ millions)	Refinery Services 2001	Refinery Services 2000[2]	Power Generation 2001	Power Generation 2000[2]	Western Markets (including sulphur removal assets) 2001	Western Markets (including sulphur removal assets) 2000[2]	Corporate 2001	Corporate 2000[2]	Total 2001	Total 2000[2]
Revenue	**69.5**	57.6	**51.2**	51.6	**116.0**	202.3	**-**	-	**236.7**	311.5
EBITDA [1] from continuing operations	**22.6**	21.7	**(1.4)**	(2.3)	**29.3**	36.9	**(10.9)**	(12.8)	**39.6**	43.5
Total Assets from continuing operations [3]	**149.3**	144.4	**29.1**	21.6	**28.7**	88.8	**136.2**	35.3	**343.3**	290.1
Capital expenditures from continuing operations excluding acquisitions	**21.3**	10.8	**7.5**	4.4	**0.8**	1.7	**0.2**	0.3	**29.8**	17.2

Western Markets includes the results relating to the sulphur removal assets for a full year in 2000 and until July 18 for 2001.

(1) EBITDA is earnings (loss) before interest, income taxes, depreciation, and amortization.
(2) At the time of the Chemtrade Transaction, BCT comprised one operating segment and the gain on sale, the results of operations, and cash flows to the date of sale are presented and disclosed in accordance with Canadian generally accepted accounting principles as discontinued operations and resulted in restatement of prior year's results.
(3) In 2000 total assets excludes assets of discontinued operations of $27.0 million.

Revenue and Gross Profit

Consolidated revenue was $236.7 million for the year 2001 and include the results from the sulphur removal assets until July 18, 2001, the date of disposal. Revenue was down $74.8 million, or 24.0% from $311.5 million in 2000 as the results for the sulphur removal assets along with the results of Intertrade, sold in December 2000, are included for the full year in 2000.

Similarly, gross profit for 2001 of $82.4 million decreased $16.5 million, or 16.7% from the prior year primarily reflecting the impact of the Chemtrade Transaction and Intertrade. This also impacted the gross profit as a percentage of revenue, increasing from 31.8% in 2000 to 34.8% in 2001.

Refinery Services provides outsourced compliance services to major oil refinery customers in the United States and Canada, primarily extraction and recovery of sulphur from hydrogen sulphide gas created during the refining process, SO_2 recovery to ensure air quality compliance, and regeneration of spent sulphuric acid produced during the octane enhancement of gasoline.

Refinery Services' revenue increased by $11.9 million or 20.7% to $69.5 million in 2001 from $57.6 million in 2000. This was primarily due to additional revenue from the spent acid business, including the BP Whiting regeneration services.

The segment provides services to oil refineries from five facilities – Montreal, Quebec; Toledo, Ohio; Whiting, Indiana; Anacortes, Washington; and Long Beach, California.

The Montreal facility has provided services to the adjacent Petro-Canada and Shell Canada refineries for over 40 years. New 10-year agreements covering the outsourced services became effective on January 1, 2001. The plant, which recovers sulphur from hydrogen sulphide gas sent by pipeline from the refineries and also captures tail gas emissions from the sulphur recovery process, operated well throughout the year.

The Toledo facility is located immediately adjacent to BP's Toledo refinery. From this site, the Refinery Services Group provides spent acid regeneration services for BP as well as for a number of other local customers, including Sun and Marathon-Ashland. The product is delivered to the site by pipeline, rail and truck. As well as servicing local refineries, the Toledo facility also handles spent acid sent by rail from the BP refinery in Whiting, Indiana. With the addition of the volume from BP Whiting, which began in late 2000, the plant operated at capacity during peak periods in 2001.

In addition to these regeneration services, the Toledo facility also provides hydrogen sulphide gas processing for BP Toledo.

Power Generation provides outsourced environmental services, primarily air quality compliance, to customers in the power generation industry. These services enable power generators to meet compliance obligations and at the same time burn lower cost fuel. The group also provides services to the cement industry through its patented CP-Gyp process which uses a by-product of the scrubbing process used by some manufacturers and combines it with cement kiln dust to produce a useable cement additive.

Power Generation's revenue decreased slightly by $0.4 million to $51.2 million in 2001. This was a result of increased revenue from the Virginia Power project offset by lower revenue attributable to the disposal of the mechanical collectors business.

During 2001, the group continued to work towards the transition to a provider of outsourced compliance solutions from its traditional business of flue gas desulphurization systems installation and equipment sales and service. By January 31, 2002 the transition had been completed with the sale of the mechanical collectors and parts and services businesses, and licensing of the traditional flue gas desulphurization technology.

The major FGD system installation for Virginia Power was approximately 90% completed during the year and initial work also commenced on a project, announced in February 2001, to supply technology, engineering and selected equipment for Guangdong Electric Power Development Bureau's Shajiao Power Plant in Guangdong Province in the People's Republic of China.

Power Generations' first outsourcing agreement in the cement industry, using its CP-Gyp process, began in June 2001 at Holcim Inc.'s ("Holcim") cement manufacturing plant in Dundee, Michigan. Marsulex owns the facility which combines two waste products of the plant's cement making process to make CP-Gyp, a high quality replacement for natural gypsum. Holcim will use CP-Gyp as an additive and the technology will allow the Company to increase its recycling efforts at the plant. Holcim has contracted for the entire output of the facility under a 10-year agreement, which has an automatic further 10-year renewal option.

Western Markets provides environmental removal services as well as chemical products to customers in Western Canada and includes the results of the sulphur removal assets in eastern North America for the full year in 2000 and approximately half of the year in 2001. The segment includes the assets of Westaim Corporation's chemicals division acquired in December 2000 for $18.5 million. The group produces a range of water treatment and other sulphur-based chemicals at four plants based in three locations in Western Canada. For example, it is one of the leading producers of alum, a water treatment chemical used extensively by municipalities for water and sewage treatment. This and other chemicals are marketed to customers in North America.

The 2000 revenue for Western Markets includes a full year's results relating to the sulphur removal assets compared to a part year in 2001 when these assets were disposed of on July 18, explaining the lower sales revenue in 2001 of $116.0 million versus $202.3 million for 2000. This decline was partially offset by revenue generated as a result of the December 2000 acquisition of Westaim's chemicals business.

The integration of the Westaim businesses proceeded smoothly during the year with added emphasis on leveraging the expanded customer base to provide an increased range of services.

Selling, General, Administrative and Other Costs

Selling, general, administrative and other costs ("SGA") were $42.8 million in 2001 compared to $55.4 million in 2000, a decrease of $12.6 million. The decrease in SGA costs was primarily due to dispositions, with the 2000 SGA costs including the full year impact of the sulphur removal assets, the mechanical collectors business and Intertrade. There are no SGA costs for Intertrade in 2001 while SGA included costs for sulphur removal assets up to July 18, 2001 and the mechanical collectors business into the third quarter of 2001. The decrease in SGA costs resulting from these disposals was partially offset by increased distribution costs resulting from an increase in spent acid volumes.

As a percent of revenue, SGA costs were somewhat higher at 18.1% in 2001 compared to 17.8% in 2000 primarily due to lower revenue in 2001.

Depreciation and Amortization

Depreciation expense for 2001 was $15.1 million compared to $17.6 million for 2000, a decrease of $2.5 million or 14.2%. This decrease was largely due to the reduction in depreciation due to the disposition of fixed assets in the Chemtrade Transaction and the Intertrade disposal, offset by the additional depreciation on the fixed assets acquired from Westaim.

Amortization of deferred foreign exchange for both 2001 and 2000 was $1.1 million. As part of the Chemtrade Transaction, the Company fully retired the Senior Notes and wrote off the remaining balance of the deferred foreign exchange.

Amortization of goodwill before tax decreased to $4.8 million in 2001 from $5.6 million in 2000 due to the disposal of goodwill associated with the Chemtrade Transaction.

Interest Expense, Net

Net interest expense was $13.9 million in 2001, a decrease of $2.7 million or 16.3% from the $16.6 million in 2000. The decrease in net interest expense is due to a decrease in interest expense as a result of the retirement of the Senior Notes.

Before deducting interest income and based on the level of debt at year end, interest expense for the upcoming year is expected to be approximately $16.1 million at the 2001 year end exchange rate of 1.5956.

Income Taxes

Total taxes for 2001 were $12.3 million, of which $9.9 million are attributable to the sale of the sulphur removal assets in eastern North America. The overall effective income tax rate was 16.1% compared with a statutory rate of 41.3%. The Company's ability to utilize tax losses, the benefit of which had not been previously recorded, and the non-taxed portion of capital gains and goodwill proceeds has reduced the effective rate. In addition, the change in the federal and provincial capital gain inclusion rates from 75% to 50% had a direct impact in reducing the tax associated with the sale of the sulphur removal assets. The reduction in rates has been offset by minimum taxes in the US and Canada of 2.2% attributable to the sale of the sulphur removal assets as well as permanent items of 2.2% and losses from US operations of 3.8%, the tax effect of which has not been recorded. The effect of lower taxes attributable to foreign jurisdictions has declined this year due to the sale of Intertrade, the sulphur removal assets in eastern North America and BCT Chemtrade Corporation. There have been no significant changes in the substantively enacted tax rates in 2001.

The 2000 tax reconciliation note has been restated to conform to current year's presentation.

CONSOLIDATED BALANCE SHEETS

Total assets were $343.3 million at December 31, 2001 or 8.3% higher than a year earlier, due mainly to the gain on the Chemtrade Transaction offset by a reduction in long-term debt.

The net book value of property, plant, and equipment at December 31, 2001 decreased by $15.3 million over the December 31, 2000 balance of $127.2 million. This decrease is primarily due to the Chemtrade Transaction offset by capital additions during the twelve months of $29.8 million and the effect of foreign exchange on the US assets, reduced by depreciation expense of $15.1 million.

Accounts receivable, inventories and accounts payable have also declined significantly from the December 31, 2000 balances as a result of the Chemtrade Transaction. As part of the Chemtrade Transaction, Chemtrade Logistics Inc. owes the Company $4.0 million relating to the finalization of the working capital. An additional $4.3 million, which was collected in January 2002, was owed pursuant to an escrow agreement.

Total debt including the current portion of long-term debt declined by $26.8 million over the December 31, 2000 balance primarily due to the retirement of the Senior Notes of $37.7 million. The reduction in US denominated long-term debt was partially offset by the continued strengthening of the US dollar during 2001. The deferred foreign exchange loss relating to the Senior Notes has been written off due to the retirement of the Senior Notes, while the foreign exchange loss relating to the Senior Subordinated Notes is included in the foreign currency translation adjustment.

As a result of the Chemtrade Transaction on July 18, 2001, the Company is obligated to make an offer within 380 days to purchase the Senior Subordinated Notes. Under the terms of the indenture, the total amount offered is limited to the net cash proceeds from the Chemtrade Transaction reduced by the repayment of the Senior Notes and funds committed and applied on capital projects in the next 360 days. Notwithstanding the foregoing, the Company shall not be required to purchase more than 25% of the original principal amount (US $26,250,000) prior to the fifth anniversary, June 30, 2003, and accordingly this amount has been recorded as the current portion of long-term debt at December 31, 2001.
The remaining amount, if any, would be required to be included in a second offer to purchase to be made on the fifth anniversary. While the Company has not finalized its plans for the Senior Subordinated Notes offer, the objective of maintaining maximum financial flexibility with which to implement its business strategy will be paramount to any decisions.

Share Capital Outstanding	**December 31, 2001**	December 31, 2000
Number of common shares	**26,781,050**	28,086,939
Number of convertible shares, non-voting	**4,720,182**	3,414,293
Number of options	**2,736,500**	1,867,332

On January 29, 2002, the Company announced its intention to make a Normal Course Issuer Bid with the Toronto Stock Exchange, pursuant to which the Company may purchase up to 1,339,053 of its common shares, representing approximately 5% of its 26,781,050 issued and outstanding common shares. The purchases may commence on February 1, 2002 and will terminate on January 31, 2003 or on such earlier date as Marsulex may complete its purchases pursuant to the Notice of Intention. The purchases will be made in accordance with the by-laws and rules of the TSE and will be purchased for cancellation. The prices that Marsulex will pay for any common shares will be the market price of such shares at the time of acquisition. Shareholders may request a copy of the Notice of Intention to make a Normal Course Issuer Bid from the Corporate Secretary of the Company.

The Company believes that the current market price of its common shares does not fully reflect the value of its business and its future business prospects and represents a discount to management's estimate of the underlying net asset value of the shares.

Financial Condition & Liquidity

On June 30, 1998, the Company issued US $105 million of 10 year Senior Subordinated Notes at 9-5/8% to institutional investors with the net proceeds used to repay the existing Senior Term Facility and a US $70 million Senior Secured Revolving Credit Facility used for the 1998 acquisitions. In 1998 the Company received an S&P rating of B+ and a Moody's rating of B2 on the Senior Subordinated Notes and these ratings remained the same to the end of 2001. In addition, the Company also negotiated a six-year US $50 million Revolving Credit Facility, which the Company cancelled as part of the Chemtrade Transaction. The Company expects to replace the credit facility with a facility that provides it with greater flexibility.

As part of the Chemtrade Transaction, the 10.21% Senior Notes were retired and a make-whole payment of $2.7 million was required. This gives the Company more flexibility to pursue further acquisitions or expansion opportunities as part of its growth strategy.

($ millions)	**December 31, 2001**	December 31, 2000
Debt	**$ 167.5**	$ 194.3
Debt to Equity	**1.7x**	4.7x
Net debt	**$ 49.4**	$ 162.3
Net debt to EBITDA	**1.3x**	3.7x
Net debt to Equity	**0.5x**	4.0x
Interest coverage (EBITDA to interest expense)	**2.3x**	2.2x

Overall the Company's financial position has improved as a result of the Chemtrade Transaction. Shareholders' equity increased due to the gain relating to the Chemtrade Transaction while the debt was reduced through the retirement of the Company's 10.21% Senior Notes.

Cash and cash equivalents at the end of 2001 increased to $118.1 million from the December 31, 2000 balance of $32.0 million. The increase of $86.1 million is primarily due to the net cash proceeds from the Chemtrade Transaction of $156.6 million less the retirement of the Senior Notes of $37.7 million. The remaining cash balances are being invested in short-term, interest-bearing deposits, and along with any new operating credit facility, will be utilized to implement the Company's growth plan. This could include acquisition or expansion of processing operations, development of new technologies, and development or expansion of the Company's presence in new markets. Currently the Company has commitments as part of projects relating to the definitive agreements that exceed current cash balances and internally generated cash. Therefore the Company will seek new outside financing to fund this growth strategy.

Working Capital

The Company's working capital, excluding cash and cash equivalents and current portion of long-term debt, was $11.7 million at December 31, 2001 compared to $7.5 million at December 31, 2000. Included in the working capital are the amounts due from Chemtrade Logistics Inc. of $4.0 million related to the finalization of working capital and $4.3 million pursuant to an escrow agreement, which was collected in January 2002. Given the size of the Company and the significant planned capital expenditures, it is not unusual for the Company to experience temporary fluctuations in working capital. The increase in working capital resulted in an increase in the current ratio, excluding cash and cash equivalents and the current portion of long-term debt, from 1.13:1 in 2000 to 1.34:1 in 2001.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash Flow from Operations

During the year ended December 31, 2001, the Company generated $19.3 million in cash from operations before changes in non-cash working capital, compared to $26.3 million in 2000.

($ millions)	2001	2000
EBITDA	$ 39.6	$ 43.5
Net interest expense	13.9	16.6
Current income taxes and other non-cash items	6.4	0.6
	$ 19.3	$ 26.3

Total cash increased by $86.1 million and is the result of cash provided by continuing operations net of the increase in non-cash working capital of $14.7 million; cash generated by the Chemtrade transaction of $124.7 million; an increase in cash from discontinued operations of $24.2 million; less the repayment of long-term debt of $37.7 million; additions to property, plant and equipment, acquisitions and deferred charges of $38.7 million; and a loss on cash held in foreign currency of $1.1 million.

Capital Expenditures

($ millions)	2001	2000
Expansion projects	$ 23.7	$ 11.1
Maintenance capital	6.1	6.1
	$ 29.8	$ 17.2

The total capital expenditures in 2001 were $29.8 million up from $17.2 million in 2000 with spending on maintenance capital in 2001 comparable to 2000. Spending on expansion projects increased $12.6 million to $23.7 million primarily due to construction spending on the air emission control facility at the BP refinery in Whiting, Indiana, and the CP-Gyp Holcim facility in Dundee, Michigan.

RISKS & UNCERTAINTIES

Following is a description of the risk factors that affect the Company's business, and ultimately, its profitability. Management's responsibility is to mitigate risk to the extent possible, in order to maximize shareholder value.

Reliance on Customers

The business of the Company is dependent on the involuntary production of a number of by-products by its customers. As environmental regulations become more demanding, the need for by-product control, regeneration, removal, and conversion has increased. Thus, the trend in North America is for continuing growth in demand for the Company's services.

After taking into account the effects of the Chemtrade Transaction, the largest customer represented 11.6% of the Company's total 2001 pro-forma revenue, the loss of which could have a significant impact on the Company.

Competition

Marsulex operates in competitive markets, and some of the Company's competitors have economic resources greater than those of the Company and are well established as suppliers to the markets that Marsulex serves.

Accordingly, such competitors may be better able to withstand volatility within industries and throughout the economy as a whole while retaining significantly greater operating and financial flexibility than the Company. However, the Company believes it benefits from its on-site regeneration facilities, its long-term relationships and contracts with its customers and from its technical skills, innovation, and value-added technologies.

Although the Western Markets Group operates in a competitive environment and is subject to volume and price volatility, the segment generally shares end-use product price and volume risk with the by-product supplier. In addition, the Western Markets Group has a well-developed customer base and long-term customer relationships.

Several of the Company's niche services and products are sold into select markets. There can be no assurance, however, that these markets will not attract additional competitors that could have greater financial, technological, manufacturing and marketing resources than Marsulex. In 2001, the largest end-use customers associated with Western Markets accounted for less than 2.4% of the Company's consolidated revenue.

Foreign Exchange

As the Company has US based operations and reports in Canadian dollars, it is exposed to foreign exchange fluctuations. Approximately 54.3% of Marsulex's 2001 revenue was in US dollars and at present, a one cent devaluation in the Canadian dollar against the US dollar would favourably impact EBITDA by approximately $0.4 million. However, the Company's debt and related interest expense is in US dollars which hedges the US dollar cash flow from operations.

The US dollar interest expense, when combined with US dollar depreciation and amortization expenses, limits the exposure of net income to foreign exchange fluctuation to approximately $0.2 million for every one cent change in the exchange rate.

Marsulex has self-sustaining operations holding US dollar assets and debt and under present accounting rules in Canada, any fluctuation in the Canadian dollar value against the US dollar is recorded in the foreign currency translation adjustment account which is part of the shareholders' equity on the balance sheet.

Commodity Prices

Industrial chemicals sold by the Company are subject to market price fluctuations. In addition, regional supply and demand imbalances can lead to isolated price erosion.

The Company's end-use contracts generally have a "meet or release" provision. As a result, competitive pressure can cause Marsulex to lower selling prices in order to retain the volume.

The Company attempts to reduce its exposure to market price fluctuations through contracts where commodity price exposure is either shared with or borne entirely by the customer.

The Company plans to continue its strategy of entering into new contracts and renegotiating existing contracts on a fee-based or risk-sharing basis in order to increase the stability of its cash flows.

Project Execution

The success of the Company's new definitive agreements is dependent on the construction of certain capital projects. The successful completion of these projects is dependent on the Company's ability to execute large projects and on the availability of construction resources. The Company, through the implementation of project management techniques, can mitigate the risk associated with the execution of these projects.

New Financing

The Company will be required to seek additional financing to supplement its current cash balances and internally generated cash flows in order to finance its existing capital commitments associated with the new definitive agreements. Until the new financing is in place, the Company is at risk as to the availability of new credit and the associated interest rates.

Interest Rates

The interest rate on all of the Company's long-term debt is fixed under contractual agreements. The Senior Subordinated Notes bear interest of 9-5/8%. (See Notes to Consolidated Financial Statements, note 11.)

Labour

In 2001, the collective agreement representing the ten employees in the Fort Saskatchewan plant was renewed successfully. As a result of the Chemtrade Transaction, Marsulex reduced its number of unionized employees by ten.

The Company now has 25 unionized employees at two sites, represented by two unions through two collective agreements. No collective agreements expire in 2002. Marsulex has not suffered any loss of production due to work stoppages by its employees during its history. Recent settlements have been completed within 24 hours which indicates the positive relationship between the represented employees and the Company. In addition, a large number of the Company's customers and end-use customers have a number of employees who are represented by collective agreements and may be subjected to work stoppages.

Environment

The Company has a comprehensive policy on the environment directed towards minimizing the environmental impact of all its activities. Application of, and adherence to, the policy is regularly reviewed through environmental assessments, including independent reviews of its assets and operations. In 2001, the Company conducted internal assessments at select facilities to verify the presence and effectiveness of its management systems, and through various third party assessments, reaffirmed management's confidence in these systems.

The Environmental, Health & Safety Committee of the Board of Directors meets regularly to, among other things, review the Company's performance against the Company's environmental, health, safety and training policies and practices. The Committee also works with management to prioritize capital expenditures related to environmental risk and regulatory compliance.

Notices and Findings of Violation have been issued against the Company by federal regulators with respect to the Company's facility in Oregon, Ohio. The Company is, however, in compliance with the permits issued by the governing body (the State). Although there is a potential for penalties to be assessed against the Company, the Company believes that it is in substantial compliance with environmental laws, regulations and guidelines, and, in the opinion of management, any sources of non-compliance can be resolved through the installation of technically feasible control equipment. Although it is possible that additional compliance costs may arise due to potential changes in laws and regulations, in the opinion of management, environmental compliance costs will not have a material impact on the financial position of the Company.

A Notice and Finding of Violation has been issued by federal regulators with respect to the facility in Cairo, Ohio which has been sold to Chemtrade Logistics Inc. ("Chemtrade"). As part of the sale, the Company has indemnified Chemtrade against liabilities relating to the Notice and Finding of Violation issued. Management believes any sources of non-compliance can be resolved through the installation of technically feasible control equipment. As part of the indemnification the Company will reimburse Chemtrade for the installation of such control equipment and for any penalties which may be levied against the facility in respect of the Notice and Finding of Violation. In the opinion of management, environmental compliance costs will not have a material impact on the financial position of the Company.

Health and Safety

A safe workplace has always been a primary objective of the Company.

Through special emphasis and training focused on increasing safety awareness and developing safe behaviours among all its staff, the Company has improved its safety performance resulting in fewer recordable occupational injuries or illnesses than has been experienced in the past six years. With a 2001 rate of 1.62 Recordable Occupational Injuries or Illnesses per 100 full-time employees compared to the 2000 rate of 2.11, the Company is pleased with its performance in 2001, yet embraces a goal of zero incidents as its ultimate objective. Management believes a zero rate is achievable with continued efforts and commitment.

Critical Accounting Policies

Management of the Company continuously reviews its accounting policies, in particular those policies for which several alternative methods exist. This ensures the policies conform with generally accepted accounting principles and reporting requirements.

The Company's significant accounting policies are disclosed in the financial statements and have not materially changed during 2001.

CHANGES IN ACCOUNTING POLICIES FOR 2002

Stock-based Compensation

Effective January 1, 2002, the Company adopted the new Recommendation of the Canadian Institute of Chartered Accountants ("CICA") with respect to the accounting for stock-based compensation and other stock-based payments. The new Recommendations are applied prospectively to all stock-based payments to non-employees, and to employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2002, except grants outstanding at January 1, 2002 that call for settlement in cash or other assets or stock appreciation rights that call for settlement in equity instruments. For such grants, the new Recommendations are applied retroactively, without restatement. As a result, the Company does not believe the adoption of this standard will have a material impact upon the financial statements.

Business Combinations, Goodwill and Other Intangible Assets

The CICA issued Handbook Section 1581, "Business Combinations" ("Section 1581") and Handbook Section 3062, "Goodwill and Other Intangible Assets" ("Section 3062"). Section 1581 requires that the purchase method of accounting be used for all business combinations. Section 1581 specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. Section 3062 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually by comparing carrying value to the respective fair value in accordance with the provisions of Section 3062. Section 3062 also requires that intangible assets with definitive useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment by assessing the recoverability of the carrying value.

The Company will adopt the provisions of Section 1581 and Section 3062 effective January 1, 2002. Goodwill acquired in business combinations previously completed before January 1, 2002 continue to be amortized to December 31, 2001.

Upon adoption of Section 3062, the Company is required to evaluate its existing intangible assets and goodwill that were acquired in purchase business combinations, and to make any necessary reclassifications.

In connection with Section 3062's transitional goodwill impairment evaluation, the Company is to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. The Company will have up to six months from January 1, 2002 to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. Any transitional impairment loss resulting from an assessment in value will be recognized as a prior period adjustment to opening retained earnings at January 1, 2002.

As of the date of adoption of Section 3062, the unamortized goodwill in the amount of $58.9 million will be subject to the transitional provisions of Section 3062. Amortization expense related to goodwill before taxes was $4.8 million, and $5.6 million for the years ended December 31, 2001 and 2000, respectively. As a result of the extensive effort needed to comply with adopting Sections 1581 and 3062, it is not practicable to reasonably estimate the impact of adopting these Sections on the Company's financial statements at December 31, 2001, including whether it will be required to recognize any transitional impairment losses as a cumulative effect of a change in accounting principles which would be charged to opening retained earnings as at January 1, 2002.

However, the Company does not believe the adoption of these standards will have a material impact on the financial statements.

Hedging Relationships

Effective January 1, 2002 the CICA issued a new Accounting Guideline ("AcG 13") requiring the identification, designation, documentation and assessment of the effectiveness of hedging relationships, for the purpose of applying hedge accounting and discontinues hedge accounting of existing hedges. The Company does not expect that the implementation of the guideline will have an impact on its financial position since the Company's only material hedging relationship relates to its US dollar denominated debt used to acquire its US operations. This has been accounted for as a hedging relationship as disclosed in note 1(f) to the Consolidated Financial Statements and will continue to be accounted for in the same manner under the guideline.

Deferred Foreign Exchange

The CICA Handbook Section 1650 amended November 2001 and effective January 1, 2002, eliminates the deferral and amortization of unrealized translation gains and losses on foreign currency denominated monetary items that have a fixed or ascertainable life beyond the end of the fiscal year. This amendment would require these gains and losses to be included in income for the period. This amendment will be adopted by the Company effective January 1, 2002 and applied retroactively with restatement. The adoption of this section will result in an increase in net income for 2001 of $1.4 million and a decrease in net income of $0.8 million in 2000. The balance of retained earnings at January 1, 2000 will be restated by $0.8 million to reflect the cumulative effect of the change on periods prior to that date.

OUTLOOK

The outlook for Marsulex remains favourable with the Company's existing business expected to remain stable in 2002.

The narrowed focus on the core strategy of outsourced compliance services is expected to accelerate growth and generate high quality earnings, as indicated by the agreements with Syncrude and Santee Cooper.

The potential for more customer relationships such as these is positive. Independent market analysis indicates that the estimated cost to bring older coal-fired power generators to the broadened emissions standards is in excess of $40 billion. In addition, the capital investment required by oil refineries to meet currently mandated US environmental regulations and to improve efficiencies is estimated at over US $10 billion per year over the next five years.

Marsulex's long track record, the added credibility of the new outsourcing agreements, and the Company's growing reputation for innovative solutions are expected to lead to more long-term agreements for service packages incorporating its proven technology and know-how.

Forward-looking Statements

The foregoing may contain forward-looking statements. These statements are based on current expectations that are subject to risks and uncertainties, and the Company can give no assurance that these expectations are correct. Various factors could cause actual results to differ materially from those projected in such statements, including financial considerations and those predicting the timing and market acceptance of future products. The Company disclaims any intention or obligation to revise forward-looking statements whether as a result of new information, future developments or otherwise. All forward-looking statements are expressly qualified in their entirety by this Cautionary Statement.

The management of Marsulex Inc. is responsible for the integrity of the accompanying Consolidated Financial Statements and all other information in the annual report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles applied on a consistent basis and which recognize the necessity of relying on best estimates and informed judgments. The most significant of these accounting principles have been set out in Note 1 to the Consolidated Financial Statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management depends on the Company's systems of internal accounting control. These systems are designed to provide reasonable and cost-effective assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements.

The Board of Directors oversees management's responsibilities for financial statements primarily through the activities of its Audit Committee, which is composed solely of Directors who are neither officers nor employees of the Company. This Committee meets regularly with financial management and the independent auditors to discuss internal controls, auditing matters and financial reporting issues. The Audit Committee reviews the Consolidated Financial Statements and Management's Discussion & Analysis prior to the Board of Directors approving them for inclusion in the Annual Report. The Audit Committee also meets with the auditors without the presence of management, to discuss the results of their audit, their opinion on internal accounting controls, and the quality of financial reporting.

The financial statements have been audited by KPMG LLP, Chartered Accountants. Their report outlines the scope of their examinations and opinion on the Consolidated Financial Statements.

David M. Gee
President &
Chief Executive Officer

Laurie Tugman
Executive Vice President &
Chief Financial Officer

Edward R. (Ted) Irwin
Vice President, Finance

Toronto, Canada
February 13, 2002

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Marsulex Inc. as at December 31, 2001 and 2000 and the consolidated statements of operations, retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
February 13, 2002

Consolidated Balance Sheets

(In thousands of dollars)

December 31, 2001 and 2000

		2001		2000
Assets				
Current assets:				
Cash and cash equivalents	$	118,148	$	31,999
Accounts receivable		32,050		54,718
Due from Chemtrade Logistics (note 4(c))		4,000		–
Note from Chemtrade Logistics (note 4(c))		4,305		–
Inventories (note 8)		3,217		8,221
Future tax asset (note 14)		1,171		–
Prepaid expenses and other assets		931		742
		163,822		95,680
Property, plant and equipment (note 9)		111,873		127,247
Deferred charges and other assets, net of accumulated amortization		8,698		12,092
Goodwill, net of accumulated amortization (note 10)		58,899		82,086
	$	343,292	$	317,105
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable	$	11,274	$	35,647
Accrued liabilities		21,259		18,560
Income taxes payable		1,453		1,773
Future tax liability (note 14)		–		189
Current portion of long-term debt (note 11)		41,885		12,002
		75,871		68,171
Long-term debt (note 11)		125,654		182,274
Deferred revenues		2,113		–
Other liabilities		9,993		4,016
Future tax liability (note 14)		18,512		12,476
Minority interest		9,995		9,221
Shareholders' equity:				
Capital stock (note 12)		57,505		57,505
Retained earnings (deficit)		39,552		(22,412)
Foreign currency translation adjustment		4,097		5,854
		101,154		40,947
Commitments and contingencies (note 13)				
Subsequent events (note 18)				
	$	343,292	$	317,105

See accompanying notes to consolidated financial statements.

On behalf of the Board:

John A Rogers — Lee C. Stewart

John Rogers
Director

Lee C. Stewart
Director

Consolidated Statements of Operations

(In thousands of dollars, except per share amounts)

Years ended December 31, 2001 and 2000

	2001	2000
		(Restated - note 4(b))
Revenue	$ 236,714	$ 311,491
Cost of sales and services	154,293	212,546
Gross profit	82,421	98,945
Selling, general, administrative and other costs	42,805	55,420
Loss (gain) on disposal of property, plant and equipment	59	(871)
Depreciation	15,117	17,631
Earnings from continuing operations before the undernoted	24,440	26,765
Unusual items, gain (loss) (note 3)	54,111	(46,709)
Amortization of deferred foreign exchange (note 11)	(1,045)	(1,087)
Amortization of deferred charges	(1,074)	(1,442)
Interest income	3,141	3,509
Interest expense	(17,020)	(20,079)
Earnings (loss) from continuing operations before income taxes, minority interest and amortization of goodwill	62,553	(39,043)
Income taxes (recovery):		
Current	5,491	1,229
Future	6,784	(2,261)
	12,275	(1,032)
Minority interest	1,403	1,503
Earnings (loss) from continuing operations before amortization of goodwill	48,875	(39,514)
Amortization of goodwill, net of income taxes (note 10)	3,555	3,986
Earnings (loss) from continuing operations	45,320	(43,500)
Earnings from discontinued operations, net of tax (note 4(b))	16,644	3,658
Net earnings (loss)	$ 61,964	$ (39,842)
Earnings (loss) per share (note 2):		
Basic before amortization of goodwill	$ 1.55	$ (1.25)
Basic from continuing operations	1.44	(1.38)
Basic	1.97	(1.27)
Diluted before amortization of goodwill	1.54	(1.25)
Diluted from continuing operations	1.43	(1.38)
Diluted	1.95	(1.27)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings (Deficit)

(In thousands of dollars)

Years ended December 31, 2001 and 2000

		2001		2000
Retained earnings (deficit), beginning of year	$	**(22,412)**	$	17,430
Net earnings (loss)		**61,964**		(39,842)
Retained earnings (deficit), end of year	$	**39,552**	$	(22,412)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands of dollars)

Years ended December 31, 2001 and 2000

	2001	2000
		(Restated - note 4(b))
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	$ 61,964	$ (39,842)
Items not affecting cash:		
Earnings from discontinued operations	(16,644)	(3,658)
Depreciation	15,117	17,631
Loss (gain) on disposal of property, plant and equipment	59	(871)
Gain on disposal of sulphur removal assets	(64,768)	–
Expenses incurred on early retirement of debt	4,344	–
Write-off of deferred charges	3,619	–
Loss on disposal of Intertrade Holdings Inc.	–	46,709
Amortization of deferred charges and deferred foreign exchange	2,119	2,529
Amortization of goodwill	4,802	5,596
Future income taxes	6,171	(2,877)
Minority interest	1,403	1,503
Other non-cash items	1,158	(449)
	19,344	26,271
Increase in operating working capital, excluding cash and current portion of long-term debt (note 7)	(4,612)	(8,168)
Cash provided by continuing operations	14,732	18,103
Cash provided by (used in) discontinued operations	(3,723)	4,101
Financing activities:		
Repayment of long-term debt	(37,723)	(10,550)
Decrease in other liabilities	–	(1,179)
Cash used in discontinued operations	(380)	(282)
	(38,103)	(12,011)
Investing activities:		
Proceeds on disposal of property, plant and equipment	124,686	2,838
Additions to property, plant and equipment	(29,775)	(17,182)
Acquisitions (note 5)	(2,979)	(18,500)
Increase in deferred charges	(5,851)	(1,567)
Cash provided by (used in) discontinued operations	28,269	(2,361)
	114,350	(36,772)
Foreign exchange gain (loss) on cash held in foreign currency	(1,107)	660
Increase (decrease) in cash and cash equivalents	86,149	(25,919)
Cash and cash equivalents, beginning of year	31,999	57,918
Cash and cash equivalents, end of year	$ 118,148	$ 31,999
Supplemental cash flow information:		
Interest paid	$ 18,029	$ 20,254
Income taxes paid, net of refunds	3,480	1,703

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of dollars)
Years ended December 31, 2001 and 2000

1. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of Marsulex Inc. (the "Company") and its subsidiaries from their respective dates of acquisition.

(b) Cash and cash equivalents:

Cash equivalents are comprised of highly liquid investments having original terms of maturity of 90 days or less when acquired. They are valued at cost plus accrued interest, which approximates market value.

(c) Inventories:

Inventories are valued at the lower of average cost and net realizable value.

(d) Property, plant and equipment:

Property, plant and equipment are stated at cost. Depreciation is charged on a straight-line basis over the economic useful lives of the related assets, which range from three to 20 years.

The Company includes, as part of the cost of its plant and equipment, all financing costs (including interest) incurred prior to the asset becoming available for operation, providing the resulting capital cost does not exceed the net recoverable amount of the asset.

(e) Goodwill and deferred charges:

Goodwill is amortized on a straight-line basis over its estimated life of up to 40 years. The Company determines whether permanent impairment has occurred by regularly evaluating the expected operating cash flows of the respective assets acquired.

Deferred charges are amortized on a straight-line basis over the life of the contract (up to 10 years).

(f) Foreign currency translation:

The accounts of the Company's foreign operations are considered to be self-sustaining and are translated into Canadian dollars using the current rate method. Assets and liabilities are translated at the rates in effect at the balance sheet date and revenue and expenses are translated at average exchange rates for the year. Gains or losses arising from the translation of the financial statements of self-sustaining foreign operations are deferred in a "Foreign Currency Translation Adjustment" account in shareholders' equity until there is a realized reduction in the net investment.

Gains and losses on the translation of the US dollar-denominated Senior Subordinated Notes (note 11) used for the acquisition of the Company's self-sustaining foreign operations are considered to be a hedge of the net investment in the self-sustaining operations and are offset against the exchange gains or losses arising on translation of the financial statements of the foreign operation and are included in the Foreign Currency Translation Adjustment.

Monetary assets and liabilities denominated in US dollars have been translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. All revenue and expenses denominated in US dollars are translated at average rates in effect during the year. Translation gains and losses are included in the consolidated statements of operations, except those relating to the translation of long-term debt (the Senior Notes (note 11)), which are deferred and amortized on a straight-line basis over the term of the debt. The deferred foreign exchange balance related to any early retirement of the Senior Notes is written off at the time of repayment.

(g) Revenue recognition:

Revenue from the sale of by-products and other chemicals is recognized at the time of shipment. Revenue from contracts for the supply and installation of air pollution control systems is recorded as the services are performed, using the percentage-of-completion method. The effect of changes in total estimated income for each contract is

1. Significant accounting policies (continued):

recognized in the period in which the determination is made. Losses on contracts are fully recognized when they become evident.

(h) Environmental obligations:

Liabilities are recorded when environmental claims or remedial efforts are probable and the costs can be reasonably estimated. Environmental expenditures that relate to current operations are expensed or capitalized as appropriate.

(i) Stock-based compensation:

The Company provides compensation to certain employees, officers and directors in the form of stock options. The Company follows the settlement method of accounting for such awards. Using this method, no expense is recognized for stock options as the strike price is set at the market price on the day the awards are issued. When stock options are exercised, the proceeds received by the Company are credited to common shares.

(j) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(k) Comparative figures:

Certain 2000 comparative figures have been reclassified to conform to the financial statement presentation adopted in 2001.

2. Change in accounting policy:

The Canadian Institute of Chartered Accountants has issued Handbook Section 3500, "Earnings Per Share", which requires a new basis for calculating diluted earnings per share, using the treasury method instead of the imputed earnings approach, to determine the dilutive effects of options. These new recommendations, which were adopted by the Company effective January 1, 2001, were applied retroactively and their impact was not material.

3. Unusual items:

		2001		2000
Gain on disposal of sulphur removal assets (note 4(a))	$	**64,768**	$	–
Expenses incurred on early retirement of debt (note 11)		**(7,038)**		–
Write-off of deferred charges		**(3,619)**		–
Loss on disposal of Intertrade Holdings Inc. (note 6)		**–**		(46,709)
	$	**54,111**	$	(46,709)

4. Sale of sulphur removal assets and BCT Chemtrade Corporation:

On July 18, 2001, the Company completed the sale of its sulphur removal services assets in eastern North America and of BCT Chemtrade Corporation ("BCT"), a subsidiary of Marsulex, to Chemtrade Logistics Income Fund for gross cash proceeds before costs of disposition of $167,169,000 (the "Transaction") or $156,589,000 net of costs of disposition, comprised of $128,142,000 for the sale of the sulphur removal assets and $28,447,000 for the sale of BCT.

(a) The sale of the sulphur removal services assets in eastern North America resulted in the following gain:

Proceeds of disposition, net of costs	$	128,142
Net book value and costs of sale		(63,374)
Gain on sale, before income taxes		64,768
Income taxes		(9,921)
Gain on sale, net of tax	$	54,847

4. Sale of sulphur removal assets and BCT Chemtrade Corporation (continued):

(b) The operations of BCT comprised one operating segment. Accordingly, for reporting purposes, the gain on the sale, the results of operations and cash flows of this business, to the date of sale, are presented and disclosed as discontinued operations and resulted in restatement of the prior year's results. Additional information related to the discontinued operations is as follows:

	Period ended July 17, 2001	Year ended December 31, 2000
Revenue	$ 48,221	$ 75,237
Earnings before income taxes	$ 2,379	$ 5,304
Income taxes	(476)	(1,061)
Minority interest	(387)	(585)
Earnings from discontinued operations	1,516	3,658
Gain on sale	15,863	–
Income taxes	(735)	–
Net gain on disposal	15,128	–
Net earnings from discontinued operations	$ 16,644	$ 3,658

	Period ended July 17, 2001	Year ended December 31, 2000
Cash provided by (used in):		
Operating activities	$ (3,723)	$ 4,101
Financing activities	(380)	(282)
Investing activities	28,269	(2,361)
Increase in cash and cash equivalents from discontinued operations	$ 24,166	$ 1,458

(c) As part of the Transaction, Chemtrade Logistics Inc. owes the Company $4,000,000 relating to the finalization of working capital and a note in the amount of $4,305,000 (which was received in January 2002).

5. Acquisitions:

(a) Acquisition of Harrowston Investments Limited:

On July 17, 2001, the Company purchased the shares of Harrowston Investments Limited from its major shareholder, Harrowston Inc. for $2,979,000; principal assets of Harrowston Investments Limited comprised of future income tax assets. Harrowston Investments Limited was merged with the Company.

(b) On December 29, 2000, the Company acquired the assets of a chemical division of a third party. The purchase price, including related fees and expenses, was $18,500,000 financed by the Company entirely through cash. The results of operations have been consolidated from the date of acquisition.

The acquisition was accounted for using the purchase method of accounting and the final purchase price allocation, including acquisition costs, was as follows:

Current assets	$ 2,412
Current liabilities	(1,360)
Property, plant and equipment	12,507
Goodwill	4,941
Total purchase price	$ 18,500

The goodwill of $4,941,000, generated as a result of the acquisition, represents the excess of purchase price consideration over the estimated fair value of the net assets acquired, and is being amortized on a straight-line basis over its estimated useful life of 20 years.

6. Intertrade Holdings Inc. disposal:

On December 31, 2000, the Company disposed of its investment in Intertrade Holdings Inc., a wholly owned subsidiary of IT Holding, Inc. Intertrade Holdings Inc.'s Copperhill facility manufactured sulphur dioxide and sulphuric acid. This was one of a number of similar North American facilities that produce sulphuric acid for industrial applications.

The disposition of the investment in Intertrade Holdings Inc. resulted in the following loss for the Company:

Property, plant and equipment, net book value	$	20,912
Goodwill, net book value		17,403
Other assets		8,394
		46,709
Reversal of future tax liability		(4,087)
Net loss	$	42,622

7. Change in non-cash operating working capital:

		2001		2000
Accounts receivable	$	**3,426**	$	(1,378)
Inventories		**3,829**		4
Prepaid expenses and other assets		**2,670**		(2,018)
Accounts payable and accrued liabilities		**(14,416)**		(3,450)
Income taxes payable		**487**		(1,576)
Future tax asset		**(608)**		250
	$	**(4,612)**	$	(8,168)

8. Inventories:

		2001		2000
Raw materials and work in process	$	**1,287**	$	1,352
Finished goods		**1,307**		5,707
Operating supplies		**623**		1,162
	$	**3,217**	$	8,221

9. Property, plant and equipment:

				2001				2000
		Cost		Accumulated depreciation		Net book value		Net book value
Land	$	**1,499**	$	**–**	$	**1,499**	$	3,268
Plant and equipment		**155,160**		**76,550**		**78,610**		105,316
Facilities and equipment under construction		**31,764**		**–**		**31,764**		18,663
	$	**188,423**	$	**76,550**	$	**111,873**	$	127,247

During the year ended December 31, 2001, the Company capitalized $1,065,000 (2000 - $191,000) of financing costs as part of the cost of assets under construction.

10. Goodwill:

		2001		2000
Goodwill, at cost	$	**79,241**	$	104,146
Less accumulated amortization		**20,342**		22,060
	$	**58,899**	$	82,086

10. Goodwill (continued):

		2001		2000
Amortization of goodwill	$	4,802	$	5,596
Current income taxes		(634)		(994)
Future income taxes		(613)		(616)
Amortization of goodwill, net of income taxes	$	3,555	$	3,986

11. Long-term debt:

		2001		2000
Senior Notes:				
10.21% secured notes, maturing 2003, (2000 - US $24,500,000)	$	–	$	36,755
Senior Subordinated Notes:				
9-5/8% U.S. $105,000,000, maturing 2008		167,539		157,521
		167,539		194,276
Less current portion		41,885		12,002
	$	125,654	$	182,274

On July 18, 2001, the Company fully retired its outstanding 10.21% Senior Notes and cancelled its US $50,000,000 operating credit facility at an expense of $7,038,000. These expenses included the write-off of deferred debt issuance costs and foreign exchange costs of $4,344,000 and a make-whole payment of $2,694,000.

Long-term debt denominated in US dollars has been translated to Canadian dollars at rates in effect at the balance sheet date. A loss of $1,045,000 was charged to the consolidated statements of operations in 2001 (2000 - $1,087,000) relating to the amortization of deferred foreign exchange on long-term debt.

The Senior Subordinated Notes require the Company to offer to repurchase the notes equal to 101% of the principal amount upon a change of control. A change of control as defined in the indenture has not occurred.

Amounts due for repayment, stated in US dollars, are as follows:

2002	$	26,250
2008		78,750
	$	105,000

The Senior Subordinated Notes are redeemable at the option of the Company at any time after July 1, 2003, at specified redemption premiums.

As a result of the Transaction on July 18, 2001, the Company is obligated to make an offer within 380 days to purchase the Senior Subordinated Notes. Under the terms of the indenture agreement, the total amount offered is limited to the net cash proceeds of the Transaction reduced by the repayment of the Senior Notes and funds committed and applied on capital projects in the next 360 days. Notwithstanding the foregoing, the Company shall not be required to purchase more than 25% of the original principal amount (US $26,250,000) prior to the fifth anniversary, June 30, 2003 and, accordingly, this amount has been recorded as the current portion of long-term debt. The remaining amount, if any, would be required to be included in a second offer to purchase to be made on the fifth anniversary.

12. Capital stock:

		2001		2000
Authorized:				
Unlimited preference shares, no par value				
Unlimited convertible shares, non-voting, no par value				
Unlimited common shares, no par value				
Issued and fully paid:				
4,720,182 convertible shares (2000 - 3,414,293)	$	7,864	$	5,688
26,781,050 common shares (2000 - 28,086,939)		49,641		51,817
	$	57,505	$	57,505

12. Capital stock (continued):

The non-voting convertible shares are convertible into common shares on a one-for-one basis and the common shares are convertible into non-voting convertible shares on a one-for-one basis at any time. The non-voting convertible shares are entitled to receive the same dividend as the common shares and participate equally with the common shares in any distribution of assets of the Company.

On July 16, 2001, 1,305,889 common shares were converted into 1,305,889 non-voting shares.

Under the terms of the Company's stock option plan, 3,149,023 common shares have been reserved for issuance to holders of options granted. Options held by any participant in the option plan (whether or not such options were issued pursuant to the option plan or otherwise) may not exceed 5% of the common shares outstanding from time to time. Options granted vest in equal annual amounts on each of the first three anniversary dates of the grant and are exercisable for 10 years from the date of grant.

Details of the changes in options outstanding are as follows:

	Number of options	Weighted average exercise price
Outstanding, December 31, 1999	1,246,500	$ 5.14
Granted	677,000	3.40
Cancelled	(56,168)	4.57
Outstanding, December 31, 2000	1,867,332	4.52
Granted	1,049,250	2.33
Cancelled	(180,082)	4.48
Outstanding, December 31, 2001	2,736,500	3.68

The following table summarizes information about stock options outstanding at December 31, 2001:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding, December 31, 2001	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable, December 31, 2001	Weighted average exercise price
$2.33 - $3.85	2,086,000	8.59 years	$ 2.96	613,090	$ 3.44
$4.65 - $8.80	650,500	5.52 years	6.02	650,500	6.02
	2,736,500			1,263,590	

The following table sets forth the computation of diluted earnings per share:

	2001	2000
Numerator:		
Earnings (loss) available to common shareholders	$ **61,964**	$ (39,842)
Denominator (shares in thousands):		
Weighted average shares outstanding	**31,501**	31,501
Effect of dilutive securities:		
Employee stock options	**240**	–
Adjusted weighted average shares and assumed conversions	**31,741**	31,501

13. Commitments and contingencies:

(a) Operating leases:

Under the terms of operating leases, the Company is committed to rental payments as follows:

2002	$	3,999
2003		2,891
2004		1,739
2005		838
2006		412
Thereafter		327
	$	10,206

(b) Purchase agreements:

Substantially all of the Company's service contracts with customers have a minimum fixed duration and provide for the guaranteed removal of contracted by-products, which are produced in the customer's manufacturing process.

(c) Environmental cleanup costs:

The Company's operations are subject to numerous laws, regulations and guidelines relating to air emissions, water discharges, solid and hazardous wastes, transportation and handling of hazardous substances and employee health and safety in Canada, the United States and other foreign countries where it operates. These environmental regulations are continually changing and generally becoming more restrictive. The Company has purchased a number of sites as a result of the acquisitions of certain businesses. Subject to certain limitations, the Company will be indemnified by the vendors for any remediation costs or environmental actions that may arise as a result of conditions existing at the time of acquisition. Environmental assessments were conducted prior to the purchase of the sites as a basis to, among other things, evaluate indemnity protections and, where applicable, to verify the appropriateness of existing accruals and estimates for remediation costs. In recent years, the Company engaged third party consultants to review the environmental status of the Company's sites. Accruals have been made in specific instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. Such estimates are, however, subject to change based on negotiation with regulatory authorities, changes in laws and regulations and as new information becomes available. Although it is possible that liabilities may arise in other instances for which no accruals have been made, the Company does not believe that such an outcome will significantly impact its operations or have a material adverse effect on its financial position.

As part of the Transaction, the Company has indemnified Chemtrade Logistics Inc. for Notices and Finding of Violation relating to the Cairo facility.

(d) Other claims:

The Company is involved in certain claims arising out of the ordinary course and conduct of its business which, in the opinion of management, will not have a material impact upon the financial position of the Company.

14. Income taxes:

The income tax rate varied from the basic federal and provincial income tax rate as follows:

	2001	2000
Statutory federal and provincial income tax rate applied to income	**41.3 %**	43.9 %
Income taxed at different rates in foreign jurisdictions	**(2.1)%**	4.3 %
Federal Large Corporations Tax and minimum tax	**2.2 %**	(0.5)%
Effect of lower manufacturing and processing tax rate of subsidiaries	**(0.6)%**	1.5 %
Valuation allowance on future tax assets	**3.8 %**	(49.0)%
Losses, reduction in taxes arising from the recognition of previously unrecognized tax losses	**(10.9)%**	–
Impact of reduction in substantively enacted future tax rates	**(0.2)%**	5.0 %
Amounts not deductible for income tax purposes, other	**2.2 %**	(1.2)%
Non-taxable portion of capital gains and goodwill	**(19.6)%**	–
Combined effective income tax rate, after disposals	**16.1 %**	4.0 %

14. Income taxes (continued):

Income tax expense for the year ended December 31, 2000 includes a credit of $1,950,000 relating to the cumulative effect on the Company's future income tax liability of the proposed reduction in the federal income tax rate from 28% to 21% (2001 - 1%; 2002, 2003 and 2004 - 2% each), and the proposed reduction in the capital gains inclusion rate from three quarters to one-half for all capital gains realized after October 18, 2000, included in the Notice of Ways and Means tabled on December 21, 2000.

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2001 and 2000 are presented below:

		2001		2000
Future tax assets:				
Loss carryforwards (operating and capital)	$	**60,122**	$	65,849
Accrued and other liabilities		**6,218**		2,711
Other		**961**		528
Total gross future tax assets		**67,301**		69,088
Less valuation allowance		**61,976**		65,559
Net future tax assets		**5,325**		3,529
Future tax liabilities:				
Property, plant and equipment		**(14,227)**		(11,747)
Goodwill		**(8,066)**		(3,133)
Deferred charges		**(373)**		(1,164)
Other		**–**		(150)
Total gross future tax liabilities		**(22,666)**		(16,194)
Net future tax liability	**$**	**(17,341)**	$	(12,665)

As at December 31, 2001, the Company has unused tax losses, corporate minimum tax credit carryforwards and deductible temporary differences for which no future income tax assets (net of valuation allowance) have been recognized. The carryforward amounts are as follows:

		2001		2000
Operating loss	**$**	**155,795**	$	156,886
Capital loss		**–**		12,470
Corporate minimum tax credit		**1,592**		–
Deductible temporary differences for which no future tax assets have been recognized		**4,593**		1,385

Non-capital loss carryforwards by year of expiry are as follows:

		2001		2000
2004	**$**	**8,653**	$	–
2005		**26**		–
2006		**6**		100
Thereafter		**147,110**		156,786
	$	**155,795**	$	156,886

15. Related party transactions:

The Company has entered into a management services contract with its major shareholder for the supply of management and financial services. During 2001, the Company incurred fees of $466,000 (2000 - $545,000) under the terms of the contract.

16. Business segments:

The Company's activities are divided into four reportable segments. The three operating segments are: Refinery Services, Power Generation and Western Markets. The fourth non-operating segment is Corporate, which provides project execution support, finance, information systems, human resources and risk management to the preceding operating segments.

Refinery Services provides outsourced compliance solutions to major oil refinery customers in the United States and Canada, primarily extraction and recovery of sulphur from hydrogen sulphide gas created during the refining process, SO_2 recovery to ensure air quality compliance and regeneration of spent sulphuric acid produced during octane enhancement of gasoline.

Power Generation provides outsourced environmental services, primarily air quality compliance, to customers in the power generation industry. The segment also provides services to the cement industry through its patented CP-Gyp process.

Western Markets provides environmental removal services as well as chemical products to customers in Western Canada and until July 18 included the sulphur removal services in eastern North America that was sold as part of the Transaction.

2001	Refinery Services	Power Generation	Western Markets[2]	Corporate	Total
Revenue from external customers	$ 69,486	$ 51,223	$ 116,005	$ –	$ 236,714
Earnings (loss) from continuing operations before depreciation, including loss on disposal	$ 22,560	$ (1,394)	$ 29,320	$ (10,870)	$ 39,616
Depreciation, including loss on disposal	9,962	691	4,110	413	15,176
Earnings (loss) from continuing operations before the undernoted	$ 12,598	$ (2,085)	$ 25,210	$ (11,283)	$ 24,440
Total assets of continuing operations	$ 149,337	$ 29,095	$ 28,683	$ 136,177	$ 343,292
Capital expenditures of continuing operations	$ 21,307	$ 7,518	$ 757	$ 193	$ 29,775

2000	Refinery Services	Power Generation	Western Markets[2]	Corporate	Total
Revenue from external customers	$ 57,572	$ 51,554	$ 202,365	$ –	$ 311,491
Earnings (loss) from continuing operations before depreciation, net of gain on disposal	$ 21,708	$ (2,278)	$ 36,907	$ (12,812)	$ 43,525
Depreciation, net of gain on disposal	11,187	402	4,582	589	16,760
Earnings (loss) from continuing operations before the undernoted	$ 10,521	$ (2,680)	$ 32,325	$ (13,401)	$ 26,765
Total assets of continuing operations[1]	$ 144,439	$ 21,585	$ 88,797	$ 35,242	$ 290,063
Capital expenditures of continuing operations	$ 10,828	$ 4,418	$ 1,689	$ 247	$ 17,182
Additions to goodwill	$ –	$ –	$ 4,941	$ –	$ 4,941

(1) Excludes assets of discontinued operations of $27,042.

(2) Includes the sulphur removal services in eastern North America for a full year in 2000 and until July 18, 2001.

16. Business segments (continued):

Geographic segments:

The Company operates primarily in Canada and the United States. Revenue is attributed to customers based on location of customer.

	Revenue		Property, plant and equipment and goodwill	
	2001	2000	**2001**	2000[1]
Canada	**$ 106,880**	$ 104,788	**$ 32,778**	$ 56,309
United States	**128,579**	205,543	**137,994**	139,459
Other	**1,255**	1,160	**–**	–
	$ 236,714	$ 311,491	**$ 170,772**	$ 195,768

(1) Excludes property, plant and equipment and goodwill of discontinued operations of $13,565.

In 2001, services provided to and products handled from the Company's major customer accounted for 14.7% (2000 - 17.5%) of the Company's total revenue; the next major customer accounted for 13.2% (2000 - 8.3%).

17. Fair values of financial instruments:

The fair values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values because of the short-term maturity of these financial instruments.

The fair value of the publicly traded Senior Subordinated Notes is based on quoted market prices. The fair value of the Company's long-term debt (including the current portion) is estimated at $164,200,000 at December 31, 2001 (2000 - $182,600,000).

18. Subsequent events:

(a) On January 29, 2002, the Company announced its intention to make a Normal Course Issuer Bid ("NCIB") pursuant to which the Company may purchase 1,339,053 of its common shares issued and outstanding. The NCIB commenced on February 1, 2002 and will terminate on January 31, 2003 or such earlier date as the Company completes its purchases. The purchases will be made for cancellation at the market price of such shares at the time of acquisition.

(b) In January 2002, the Company sold its parts and services business for US $3,500,000.

2001	Board of Directors

Roderick Barrett [1]
Mr. Barrett is Managing Partner, Stikeman Elliott, Barristers & Solicitors and has acted as corporate counsel to Marsulex since its inception. He serves on the boards of a number of public and private companies

David Bookbinder [3]
Mr. Bookbinder is a corporate director, and was previously Executive Vice President of Harrowston Holdings Limited. Mr. Bookbinder has many years of international investment and management experience and has been involved with Marsulex since its formation.

David M. Gee
Mr. Gee is President & Chief Executive Officer of Marsulex. He joined the Company in that position in August 1995 after extensive general management experience in manufacturing and financial services. Mr. Gee also serves on the boards of a number of other companies and charities.

William A. Lambert [2]
Mr. Lambert is a partner with Canadian Private Equity Partners, an investment group within TD Capital. He has over 12 years experience in merchant banking and investing and 10 years experience in consulting and plant engineering. He serves on the boards of other private companies.

Ian M. Matheson [3,4]
Mr. Matheson is Chief Consulting Officer, Risk Management Consultants of Canada Limited. He has been a director of Marsulex since its inception. He has also held senior management positions with, and been an advisor to, major corporations in the United States and Canada including manufacturing, chemical, environmental and transportation companies. He is director of Aon Reed Stenhouse Inc. and serves on other boards in the insurance and financial services sector.

David S. McCann (Chairman) [4]
Mr. McCann is a partner with Canadian Private Equity Partners, an investment group within TD Capital. He has over 14 years experience in merchant and investment banking in the United States and Canada. He serves on the boards of other private companies.

John Rogers [1,2]
Mr. Rogers is President & Chief Executive Officer, MDS Inc. He has been with MDS since 1973, holding increasingly senior positions. He was appointed to his current position in March 1996 and has been a member of the Board of Directors of MDS since 1991. He also serves on the boards of several other organizations.

Lee C. Stewart [2]
Mr. Stewart is a Partner of Daniel Stewart & Company, a private investment and private equity bank located in London. Prior to Daniel Stewart & Company, Mr. Stewart had over 22 years experience as an investment banker including positions as a Vice President with Union Carbide Corporation, and Executive Vice President and Chief Financial Officer of Foamex Inc. Additionally, he is a director of AEP Industries and on the Advisory Board of Fletcher International.

Robert Yohe [1,3,4]
Mr. Yohe is a Corporate Director. Before retiring in 1994, Mr. Yohe was Vice Chairman and director of Olin Corporation, a diversified company with interests in chemicals, metals, electronic materials, ordnance and aerospace. Prior to joining Olin, he held executive positions with several chemical companies in the United States. He is a director of a number of companies including: Airgas, Inc., Calgon Carbon Corporation and The Middleby Corporation.

1 Corporate Governance Committee
2 Audit Committee
3 Environmental, Health & Safety Committee
4 Human Resources & Compensation Committee

2001	Corporate Information

Management Team

David Gee
President & Chief Executive Officer

Laurie Tugman
Executive Vice President and
Chief Financial Officer

Edward R. (Ted) Irwin
Vice President, Finance

Gordon McTavish
Vice President, Human Resources

Robert Cardell
Vice President & General Manager,
Power Generation Group

Eric Denman
Vice President, Operational Excellence

Terry Green
Vice President,
Refinery Services Group

Doug Osborne
Vice President,
Western Markets Group

Brian Stasiewicz
Vice President,
Sales & Materials Management

Judith George
Corporate Secretary

Financial Calendar 2002

Fiscal year end: December 31
Interim reports mailed:
May, August, November

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Stock Exchange Listing

The Toronto Stock Exchange
Stock symbol: MLX

Transfer Agent and Registrar

Computershare Trust Company of Canada
100 University Avenue, 11th Floor
Toronto, Ontario
M5J 2Y1

Shareholder inquiry line:
1 800 663 9097

Investor Information

Shareholders or other interested parties seeking financial information about the company are invited to call:
Laurie Tugman – Executive Vice President & CFO (416) 496 9655

Annual Meeting

The Annual and Special Meeting of Shareholders will be held on May 23, 2002 at 3:00 p.m. at the Auditorium, TSE Conference Centre, The Exchange Tower, 130 King Street West, Toronto

MARSULEX

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